



ACN 009 686 435

23 May 2016

ASX Release

CAPILANO HONEY LIMITED ENTITLEMENT OFFER TO RAISE APPROXIMATELY \$16.8 MILLION

Highlights:

- Capilano Honey Limited (**Capilano** or the **Company**) today announced a fully underwritten 1 for 10 pro-rata non-renounceable entitlement offer to raise gross proceeds of \$16.8 million (**Entitlement Offer**)
- Funds raised from the Entitlement Offer will be used to strengthen both the financial and competitive position of Capilano, by providing capital to:
 - Fund the acquisition of beekeeping enterprises
 - Strengthen the balance sheet by reducing debt and provide flexibility for further acquisitions
 - Increase working capital to support business growth and new export market sales
 - Capital investment in select production efficiency upgrades and new product capabilities
 - Dedicated marketing budget supporting new product developments and export market growth
- Offer price of \$19.50 per new share, a 7.7% discount to the closing price on 18 May 2016

Operational Update:

In the 2015 financial year and the first half to 31 December 2015, Capilano has achieved record revenue and earnings growth. For the year to 30 June 2015 revenue increased A\$34.9m, representing a 41% increase over the previous corresponding period and in the 6 months to 31 December 2016, revenue increased A\$9.2m, representing a 15% increase over the previous corresponding period.

Net profit after tax improved by 70% in the year to 30 June 2015 and by 52% over previous corresponding period in the 6 months to 31 December 2015.

Capilano has continued to implement operational improvements and increased product mix flexibility. Changes in sales mix and wholesale price flexibility have supported profitability in a higher honey price environment over the current half year. Capilano continues to see growing export sales and interest in natural wholesome product range.

The Manuka (*Leptospermum*) honey Joint Venture with New Zealand based Comvita Limited (CVT.NZX) – announced on 2 March 2016 - has been formalised. This venture has been established to secure greater honey volumes in order to meet growing global sales demand, particularly in high value-in-use therapeutic and medicinal channels. The establishment and structure of the joint venture allows both Capilano and Comvita to accelerate their respective growth strategies in the Manuka honey industry. All Australian based Manuka honey production of Capilano and Comvita, as well as product development and marketing, will be undertaken by the joint venture entity that is equally owned by Capilano and Comvita. In addition, Capilano will enter into a commercial packaging and supply agreement with Comvita under the terms of which it will pack some of Comvita's products in Australia.

Initial contributions by the joint venture partners to the joint venture will include:

- Capilano – will vend in apiaries, access to existing manufacturing and processing facilities, staff and relationships;
- Comvita – cash, corporate beekeeping and product intellectual property, therapeutic and medicinal channel distribution; and
- Joint contributions – Capilano-Comvita research initiatives.

It is expected that the joint venture will have access to separate bank funding specifically to enable the acquisition of further Manuka honey supply.

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Capilano Honey Limited ABN 55 009 686 435

Further beekeeping acquisitions by Capilano outside the Comvita joint venture will also continue to secure honey supply. Capilano has recently completed, and intends to complete, acquisitions of beekeeping enterprises and other licenced apiary sites. These acquisitions represent strategic assets that are expected to enhance Capilano's high value honey supply base, including Manuka, provide geographic diversity including a beachhead in Western Australia, provide capacity to materially grow production, and advance Capilano's strategy to attract and retain new entrants to the beekeeping industry. The Kirks Bees acquisition completed in July 2015 is performing well and in line with Capilano's expectations.

Capilano has a pipeline of potential beekeeping acquisition opportunities and intends to continue its strategy of acquiring strategic assets that meet its objectives.

An innovative "industry-first" therapeutic product will be launched in the second half of calendar 2016. The product benefits from extensive research initiatives, is expected to provide benefits beyond basic nutritional qualities of regular honey and is exclusive to Capilano. Management believe this product has the potential to further grow the total domestic honey segment and Capilano's presence in this market, and will benefit from the scale built through previous acquisitions. The product launch will be supported by an intensive, dedicated marketing campaign with an initial domestic focus, but also with significant international appeal and export potential

Earnings guidance and outlook:

The Board of Capilano expects year on year growth of net profit after tax for the full year to 30 June 2016 of between 18% and 25%. This guidance is supported by continued gains in domestic market share (organically and via acquisitions), investment in new product development and acquisition related costs and investment in sales and marketing to support international growth.

Dividend for FY16

Capilano has declared a fully franked dividend for the year to 30 June 2016 of \$0.40 per share with a record date of 30 June 2016. The new shares issued under the Entitlement Offer will rank for the dividend.

Summary

The focus of Capilano continues to be maintenance of its leading domestic market share, including increasing sales, using better inventory stock-on-hand and optimism for better honey production in the 2017 financial year. Early indications of weather outlook suggest more favourable honey supply conditions for the 2017 financial year. After the impacts of the capital raising and business development initiatives, Capilano expects results to be earnings per share accretive for the financial year to 30 June 2017.

Entitlement Offer:

Capilano announces that it is undertaking a 1 for 10 pro rata non-renounceable entitlement offer of approximately 859,712 fully paid ordinary shares in Capilano (**New Shares**) to raise \$16.8 million (**Entitlement Offer**). New Shares issued under the Entitlement Offer will rank equally with existing shares.

The offer price for the Entitlement Offer will be \$19.50 per New Share (**Offer Price**). The Entitlement Offer Price represents:

- 7.0% discount to Capilano's theoretical ex rights price (**TERP**)¹;
- 7.7% discount to Capilano's closing share price on 18 May 2016, the trading day immediately prior to Capilano entering into a trading halt in connection with the Entitlement Offer;
- 11.3% discount to the 15 trading day volume weighted average price ("VWAP") of Capilano's shares ending on 18 May 2016; and
- 9.5% discount to the 30 trading day VWAP of Capilano's shares ending on 18 May 2016.

Under the Entitlement Offer, eligible shareholders will be able to subscribe for 1 New Share for every 10 existing shares held at 7.00pm (Brisbane time) on 26 May 2016 (**Record Date**) at the Offer Price (**Entitlements**). The offer price for the Entitlement Offer will be A\$19.50 per New Share (**Offer Price**).

The Entitlement Offer is fully underwritten by Canaccord Genuity Australia Limited and Morgans Corporate Limited (**Underwriters**).

¹ The theoretical ex-rights price of A\$20.97 is calculated using Capilano's closing price on 18 May 2016 assuming proceeds from the Entitlement Offer of A\$16.8m. TERP is the theoretical price at which shares should trade immediately after the ex-date for the Entitlement Offer assuming 100% take-up of the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to the TERP

Capilano's largest shareholder, Wroxby Pty Ltd, a member of the Australian Capital Equity group has confirmed that it intends to take up its full entitlement and sub-underwrite an additional amount that could result in a maximum total holding if no other acceptances are received of 19.9% post the Entitlement Offer.

As the Entitlements will be non-renounceable, they will not be tradeable on ASX or otherwise transferable. Shareholders will not receive any value for those Entitlements that they do not take up. Shareholders who are not eligible to receive Entitlements will not receive any value for the Entitlements they would have received had they been eligible.

Capilano will notify shareholders as to whether they are eligible to participate in the Entitlement Offer. Eligible shareholders will receive an Offer Document including a personalised entitlement and acceptance form which will provide further details of how to participate in the Entitlement Offer.

Capital Raising Timetable²:

Capilano expects that the Entitlement Offer will be conducted according to the following timetable:

Event	Anticipated Date*
Announcement of Offer and lodgement of Appendix 3B and Offer Document with ASX	Monday, 23 May 2016
Notice of Offer sent to Shareholders	Tuesday, 24 May 2016
Shares quoted on an "ex-rights" basis	Wednesday, 25 May 2016
Record date for determining eligibility of Shareholders to participate under the Offer	Thursday, 26 May 2016 7.00 p.m. (Brisbane time)
Offer Document and Entitlement and Acceptance Forms dispatched to Eligible Shareholders	Tuesday, 31 May 2016
Last date to extend the Closing Date	Pre-open on Wednesday, 15 June 2016
Closing Date	Monday, 20 June 2016 5.00 p.m. (Brisbane time)
Expected commencement of trading of New Shares on a deferred settlement basis on ASX	Tuesday, 21 June 2016
Notify ASX of under subscriptions (if any)	Thursday, 23 June 2016
New Shares (including Additional New Shares) are issued, shareholder holding statements dispatched and deferred settlement trading ends	Monday, 27 June 2016
Normal trading of New Shares commences	Tuesday, 28 June 2016

For further information:

If you have any queries, please call 07 3712 8282 (within Australia) or + 61 7 3712 8282 (outside Australia) between 8.30am and 5.30pm (AEDT) Monday to Friday during the offer period or, alternatively, consult your professional adviser.

² All dates are indicative only and subject to change. Capilano and the Underwriter reserve the right to withdraw or vary the timetable without notice

Important information

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States, or in any other jurisdiction in which such an offer would be illegal. The securities referred to in this document have not been and will not be registered under the United States Securities Act of 1933 ('US Securities Act'), or under the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States, unless the securities have been registered under the US Securities Act or an exemption from the registration requirements of the US Securities Act is available.

This document may not be distributed or released in the United States.

This announcement contains certain 'forward-looking statements' within the meaning of the securities laws of applicable jurisdictions. Forward-looking statements can generally be identified by the use of forward-looking words such as 'may,' 'should,' 'expect,' 'anticipate,' 'estimate,' 'scheduled' or 'continue' or the negative version of them or comparable terminology. Any forecasts or other forward looking statements contained in this announcement are subject to known and unknown risks and uncertainties and may involve significant elements of subjective judgment and assumptions as to future events which may or may not be correct. There are usually differences between forecast and actual results because events and actual circumstances frequently do not occur as forecast and these differences may be material. The Company does not give any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur and you are cautioned not to place undue reliance on forward-looking statements.



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Annette Zbasnik
Company Secretary
Capilano Honey Limited